Oil Users Brace For Costly Winter

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Add another discouraging reality to an economic picture that already includes record home foreclosures, massive federal deficits and depressed consumer confidence: The cost of heating a home with oil will probably set another record this winter.

The average cost of a gallon of home-heating oil in the Northeast this winter will be $2.89, a painful 15.6 percent increase over last year's $2.50 average, the U.S. Energy Information Administration said.

That means the average homeowner will spend $1,827, or 21.9 percent more, to stay warm this winter, the agency said. The cost is likely to be even higher in the Lower Hudson Valley, where many large estates dot neighborhoods.

But wait. Why is the average household's cost going to go up more than the per-gallon cost? The answer is because last winter was particularly warm. This year's projection assumes a slightly colder winter, global warming notwithstanding.

"Prices are higher than they've ever been," said Danny Falcone, the vice president and general manager of Total Fuel Services Corp. in New Rochelle. "I think to say the costs will be slightly higher this winter is an understatement."

There are several factors behind the high oil prices. The EIA said in a report last week that the higher cost of crude oil - the unrefined, black gunk that comes out of the ground - and the high demand for diesel fuel are contributing to the price increases. Rapid economic growth in China and India has raised the demand for distillate fuels, such as diesel and heating oil, and is pushing prices up, the agency said.

"While it may be difficult to predict the World Series winner, it does appear very likely that heating fuel (spending) will be higher this winter compared to last winter," the EIA said.

Natural-gas users will not get hit as hard. The average cost of 1,000 cubic feet of that fuel will be $15.36, 4.2 percent more than last year's $14.74. The average cost per home in the Northeast will be $1,212.

Alfonso Quiroz, a spokesman for Consolidated Edison Inc., which has more than 201,000 residential gas customers in Westchester County, said the company expects customers' bills to be about the same as last year, even though state regulators approved an increase in the amount the company charges for distributing the gas. That assumes this winter's weather is about normal, not as warm as last year's.

The cost of the gas itself has dropped a bit, offsetting the increase in the distribution costs, Quiroz said.

Orange and Rockland Utilities Inc., the Consolidated Edison subsidiary that serves 87,000 gas customers in Rockland County, also estimates customers will pay about the same amount as last year, spokesman Michael Donovan said.

The typical monthly bill last winter was $270, he said. That means the average cost for the heating season - which the company defines as running from November through March - was $1,350, he said.

"As always, natural gas is a commodity," he said. "The more you use, the more you pay. So usage also will affect the bill."

While many oil users have already chosen their buying strategy, some are still mulling the decision.

They generally have three choices. One is to buy oil as they need it, searching out the company that offers them the best price and the level of service they want. They can turn to the Westchester County Department of Consumer Protection's Web site (www.westchestergov.com/consumer) for some help here.

The department surveys oil dealers on their prices and posts those prices on the site. But it's important to note that the prices on the site can quickly become outdated with oil markets as volatile as they are.

That volatility was at play in oil markets yesterday. The price of crude oil for November delivery rose $2.44, or 2.9 percent, to $86.13 a barrel, a record, on the New York Mercantile Exchange.

And not all dealers respond to the survey. Many of those with the highest prices decline to provide the information to the county.

Many dealers also offer a "lock-in" price, meaning the dealer and customer agree on the price the customer will pay through the winter, regardless of whether the market goes up or down.

Falcone said he believes a customer's best bet this year is a third alternative, which is to buy a price "cap." Under that arrangement, a dealer guarantees the customer that the per-gallon charge will not be higher than a certain amount through the winter. But if market conditions push prices down, the customer will benefit from those lower prices.

Falcone pointed to the odd price trend that befuddled customers and dealers last year as proof that a cap is the best choice for a customer. Heating oil prices in New York dropped from an average of $2.59 a gallon in August to $2.40 in January, the peak of the heating season.

Customers who "locked in" before heating season started got stuck with the higher prices.

Falcone's company last year became the first dealer in the region to sell a blend of 20 percent biodiesel and 80 percent heating oil, a product that environmentalists love because it reduces the amount of sulfur going into the air. He said his customer base has increased from 1,300 to more than 1,900 since he started selling the blend.

This year, however, Total Fuel Services is selling a blend of 5 percent biodiesel and 95 percent heating oil. The reason for the reduction in the amount of biodiesel in Total's product is that the state is no longer offering a tax credit to consumers for the 20-80 blend, though a number of groups are pushing for the tax break to be restored.

Robison Oil in Elmsford has also begun offering customers a blended product.

Nick Panebianco, the vice president of Panco Petroleum in Stony Point, noted that customers pay a greater premium for a cap price now than they did before the Sept. 11 terror attacks. Dealers set their cap price higher than their regular price to cover the risk they are taking.

When prices are potentially more volatile, the dealers take on more risk.

Still, Panebianco said he recommends that customers buy price caps. His cap program, which promises a price of no higher than $2.89 a gallon, is nearly sold out, he said.

"Sometimes you have a conversation with a customer who doesn't understand it, but it's really a no-brainer," he said. "I tell all the customers, 'If you're going to stay in the house for the season, take the cap.' "

The winter forecast: high oil bills
Heating oil prices are on the rise again. The average cost per gallon of heating oil rose from $1.18 in the winter of 2001-02 to $2.50 in the winter of 2006-07. The cost is projected to rise to $2.89 a gallon this winter. That would be a 15.6 percent increase in one year.

Source: The U.S. Energy Information Administration

Graphic: Yvonne Lin/The Journal News

Per-gallon costs on the rise